

## Global Real Estate Strategic Outlook

Mid-Year 2024

### IN A NUTSHELL

---

- Global property prices have stabilized as interest rates have plateaued.
  - In our view, real estate is poised to reap the benefits of prior rate hikes – namely, higher income returns and reduced construction.
  - We favor the logistics and residential sectors across Asia, the U.S., and Europe. The landscape is more varied for Office and Retail, where we see opportunities and risks around the world.
- 

## 1 / Real Estate Outlook

Midway through 2024, high-level global real estate data does not inspire much confidence. Transactions were muted and investment returns negative in all major regions in the first quarter.<sup>1</sup> Scratch beneath the surface, however, and green shoots emerge. One measure showed property prices increasing in the U.S. and Europe in the first six months of the year, and appraisal-based returns turned positive in the U.S. and the UK in May.<sup>2</sup> Anecdotally, our investment teams have observed heightened bidding activity, particularly within the logistics and residential sectors.

Stabilizing interest rates are the lynchpin of the market's turnaround. Though punctuated with volatility, global investment-grade corporate bond yields have hovered around 5% since the autumn of 2022 (see Exhibit 1).<sup>3</sup> Since 2007 (the earliest data available), cap rates have lagged bond yields by 12-18 months, suggesting that they have likely peaked.<sup>4</sup> To be sure, another spike in rates would upend the market once again, but with most central banks beginning to ease policy, or at least preparing to do so (in the case of the Federal Reserve), we believe this is unlikely (Japan being a notable exception).

<sup>1</sup> MSCI (transactions); NCREIF, INREV, and ANREV (returns). As of March 2024.

<sup>2</sup> Green Street (prices); MSCI (UK returns); NCREIF (US returns). As of June 2024.

<sup>3</sup> Bloomberg. As of June 2024.

<sup>4</sup> MSCI. As of March 2024.

The brand DWS represents DWS Group GmbH & Co. KGaA and any of its subsidiaries, such as DWS Distributors, Inc., which offers investment products, or DWS Investment Management Americas, Inc. and RREEF America L.L.C., which offer advisory services. There may be references in this document which do not yet reflect the DWS Brand.

Please note certain information in this presentation constitutes forward-looking statements. Due to various risks, uncertainties and assumptions made in our analysis, actual events or results or the actual performance of the markets covered by this presentation report may differ materially from those described. The information herein reflects our current views only, is subject to change, and is not intended to be promissory or relied upon by the reader. There can be no certainty that events will turn out as we have opined herein.

Marketing Material. In EMEA for Professional Clients (MiFID Directive 2014/65/EU Annex II) only; no distribution to private/retail customers. In Switzerland for Qualified Investors (art. 10 Para. 3 of the Swiss Federal Collective Investment Schemes Act (CISA)). In APAC and LatAm, for institutional investors only. In Australia and New Zealand for Wholesale Investors only. In MENA: For professional Clients. Further distribution of this material is strictly prohibited. For business customers only. In the Americas for Institutional Client and Registered Rep use only, not for public viewing or distribution. In Israel for Qualified Clients (Israeli Regulation of Investment Advice, Investment Marketing and Portfolio Management Law 5755-1995). For investors in Bermuda: This is not an offering of securities or interests in any product. Such securities may be offered or sold in Bermuda only in compliance with the provisions of the Investment Business Act of 2003 of Bermuda which regulates the sale of securities in Bermuda.

**EXHIBIT 1: GLOBAL CORPORATE BOND YIELD AND CAP RATES**

Source: Bloomberg (bond yield); MSCI (cap rate). As of March 2024.

Importantly, a real estate recovery does not require that interest rates come down, only that they stop going up. Indeed, once valuations have adjusted to higher rates, investors can accrue notable benefits, including generous income returns (now at their highest levels in nearly a decade) and scarcity-driven rent growth (as higher financing costs and lower prices curtail development). In the U.S., construction starts (on a sector-weighted basis) were down 67% in the first quarter of 2024 from their 2022 peak, with notable declines also seen across Europe and much of Asia.

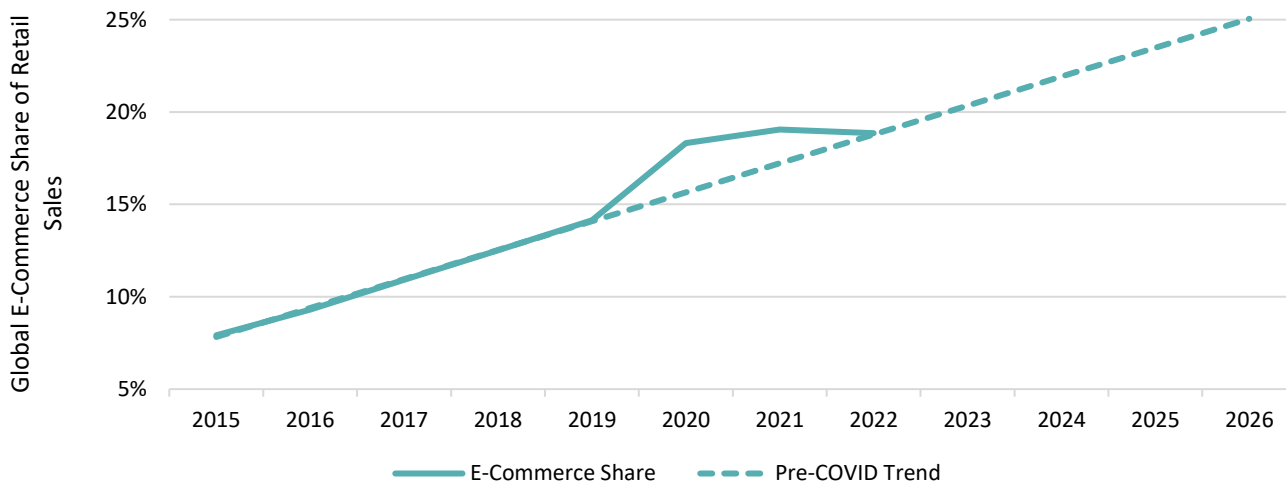
The next 12 months might be somewhat choppy, but conflicting signals are the hallmark of inflection points, where opportunities are often at their greatest. Fortune may favor the brave investor who can seize the moment, capitalize on attractive valuations, and ride the next cycle.

## 2 / Investment Strategy

Our investment strategy favors logistics and residential real estate in all regions, while taking a more nuanced view of the office and retail sectors. Our conviction around the former rests on two key macro tailwinds that we believe will persist for several years: e-commerce (logistics) and housing shortages (residential). Supply or pricing dynamics may occasionally color short-term prospects, but we believe that demand growth in these sectors will ultimately prevail, driving superior investment returns. Macro considerations also apply to the office (remote working) and retail (e-commerce) sectors, but in our view their impact across markets and asset types is uneven.

Logistics fundamentals have softened over the past 18 months, although in our view, the slowdown is neither surprising nor alarming.<sup>5</sup> COVID demand has dissipated as consumer spending has reverted from goods to services.<sup>6</sup> Meanwhile, supply triggered by the earlier surge is materializing. Vacancy rates have edged higher (from historic lows) and rent growth has cooled.<sup>7</sup> However, we believe this is only a temporary setback. Development has tumbled: in the U.S., starts are down 75%, and in Europe, space under construction is down 30% from prior peaks.<sup>8</sup> Moreover, abstracting from the COVID-related volatility, we believe that e-commerce will act as a catalyst for warehouse demand for years to come (see Exhibit 2).

**EXHIBIT 2: GLOBAL E-COMMERCE SHARE OF RETAIL SALES**



Note: Equal-weighted across the U.S., Europe, and Asia-Pacific.  
Sources: eMarketer, CBRE, WeFunding, DWS. As of June 2024.

In general, we favor supply-constrained markets, where e-commerce continues to expand into a large consumer base (e.g., Sydney and London), often host key ports (e.g., Singapore, Los Angeles, New York, and Hamburg), or are in fast-growing regions (e.g.,

<sup>5</sup> JLL, PMA, and CBRE-EA. As of March 2024.

<sup>6</sup> JLL, PMA, and CBRE-EA. As of March 2024.

<sup>7</sup> JLL, PMA, and CBRE-EA. As of March 2024.

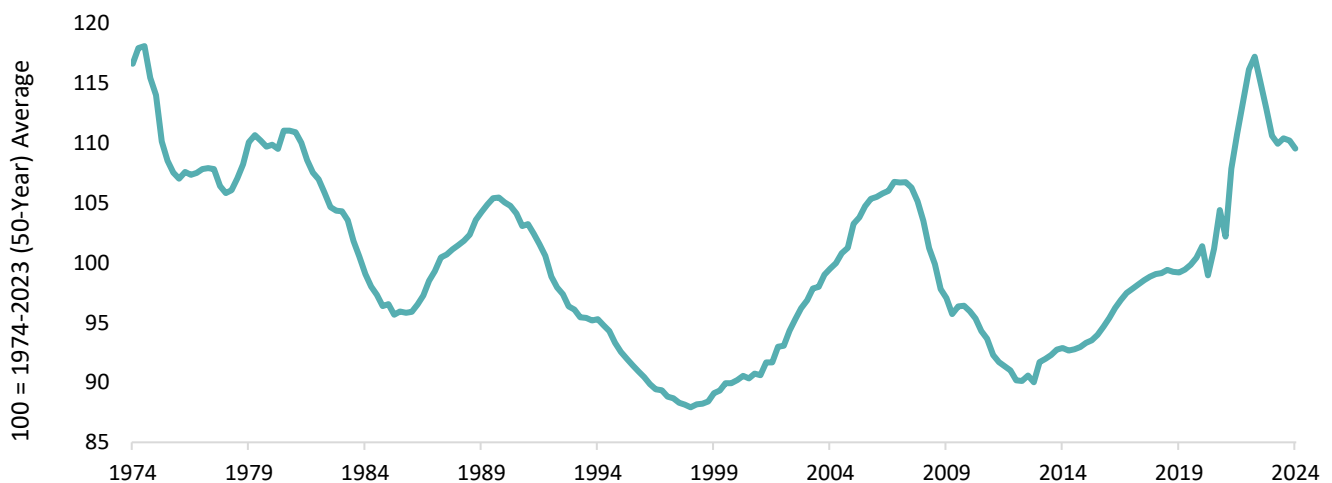
<sup>8</sup> CoStar and DWS. As of March 2024.

This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are not a reliable indicator of future performance. Forecasts are based on assumptions, estimates, opinions, and hypothetical models that may prove to be incorrect. Investments come with risk. The value of an investment can fall as well as rise and your capital may be at risk. You might not get back the amount originally invested at any point in time. Source: DWS International GmbH.

Australia and Florida). Onshoring (and nearshoring), particularly in the semiconductor and green energy industries, is another trend to watch, with the potential to boost demand near expanding manufacturing hubs (e.g., Seoul, Phoenix, and Poland).

Residential is also a target sector across regions. In general, homebuilding has failed to keep pace with population growth in many cities around the world.<sup>9</sup> Resurgent migration since the pandemic, fueled in part by geopolitical tensions, has intensified housing shortages in countries including Australia, Germany, the UK, and Spain.<sup>10</sup> Home prices across the Organization for Economic Cooperation and Development (OECD) group of advanced economies have soared 50% over the past five years, lifting price/income ratios to near record highs, even as mortgage rates have spiked (see Exhibit 3).<sup>11</sup> The cost of renting has also increased, but only half as much (24%), and less than incomes (36%), creating a runway for further growth as the more affordable housing option for expanding populations.<sup>12</sup>

### EXHIBIT 3: OECD HOME PRICE/INCOME



Sources: OECD and DWS. As of March 2024.

In the U.S. and Europe, we favor suburban, often lower-density housing (e.g., townhomes and single-family rentals) catering to an expanding cohort of young Millennial-led families, many of whom now have greater flexibility to work at least part of the week from home. We also believe that high-quality student housing is undersupplied at many leading universities and provides welcome downside protection through economic cycles. In Asia, we believe that Australian build-to-rent represents a timely opportunity, supported by strong population growth, relatively affordable rents, and recently enacted tax concessions.

Our outlook for the office sector is generally negative — reflecting the damage to fundamentals from remote work — but there are exceptions. While U.S. office markets continue to languish, in Asia, employees have mostly returned to the office, and vacancy rates

<sup>9</sup> JLL, PMA, and CBRE-EA. As of March 2024.

<sup>10</sup> JLL and PMA. As of March 2024.

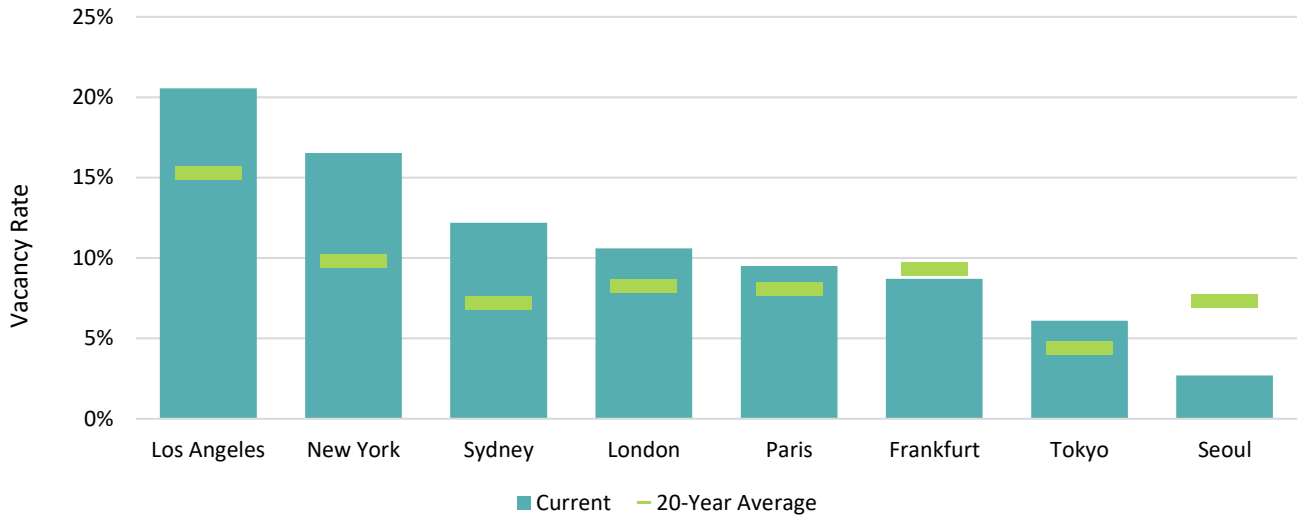
<sup>11</sup> OECD. As of March 2024.

<sup>12</sup> OECD. As of March 2024.

This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are not a reliable indicator of future performance. Forecasts are based on assumptions, estimates, opinions, and hypothetical models that may prove to be incorrect. Investments come with risk. The value of an investment can fall as well as rise and your capital may be at risk. You might not get back the amount originally invested at any point in time. Source: DWS International GmbH.

are low (although up slightly in Tokyo due to supply) (see Exhibit 4).<sup>13</sup> Europe is mixed, but a flight-to-quality has created a shortage of prime quality stock in cities like London and Paris, which we believe are oversold.<sup>14</sup>

**EXHIBIT 4: OFFICE VACANCY RATES**



Sources: JLL, CBRE, Property Council of Australia, PMA, and DWS. As of March 2024.

The retail sector is moving on from its own structural shock (e-commerce), but markets show varying levels of progress on the road to recovery. The U.S. is most advanced, as strong population (and spending) growth has soaked up space surpluses created by online sales, particularly in necessity- and service-oriented centers.<sup>15</sup> Opportunities are also emerging in the UK and Spain, where yields have risen to attractive levels and fundamentals are also improving.<sup>16</sup> Asian markets are generally lagging, although high-street locations in Tokyo and Singapore are experiencing positive momentum thanks to rising tourism.<sup>17</sup>

<sup>13</sup> JLL, CBRE, Property Council of Australia, PMA, and DWS. As of March 2024.

<sup>14</sup> PMA. As of March 2024.

<sup>15</sup> CBRE-EA (U.S.); PMA (Spain). As of March 2024

<sup>16</sup> PMA. As of March 2024

<sup>17</sup> JLL. As of March 2024.

This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are not a reliable indicator of future performance. Forecasts are based on assumptions, estimates, opinions, and hypothetical models that may prove to be incorrect. Investments come with risk. The value of an investment can fall as well as rise and your capital may be at risk. You might not get back the amount originally invested at any point in time. Source: DWS International GmbH.

# Real Estate Research Team

## Office Locations

### Frankfurt

Mainzer Landstrasse 11-17  
60329 Frankfurt am Main  
Germany  
Tel: +49 69 71909 0

### London

45 Cannon Street  
London, EC4M 5SB  
United Kingdom  
Tel: +44 20 754 58000

### New York

875 Third Avenue  
26<sup>th</sup> Floor  
New York  
NY 10022-6225  
United States  
Tel: +1 212 454 3414

### San Francisco

101 California Street  
24<sup>th</sup> Floor  
San Francisco  
CA 94111  
United States  
Tel: +1 415 781 3300

### Singapore

One Raffles Quay  
South Tower  
15<sup>th</sup> Floor  
Singapore 048583  
Tel: +65 6538 7011

### Tokyo

Sanno Park Tower  
2-11-1 Nagata-cho  
Chiyoda-Ku  
18<sup>th</sup> Floor  
Tokyo  
Japan  
Tel: +81 3 5156 6000

### Sydney

Level 16, Deutsche Bank Place  
Corner of Hunter and Phillip Streets  
Sydney NSW 2000  
Australia  
Tel: +61 2 8258 1234

## Teams

### Global

**Kevin White, CFA**  
Global Co-Head of Real Estate Research

**Simon Wallace**  
Global Co-Head of Real Estate Research

### Americas

**Brooks Wells**  
Head of Research, Americas

**Liliana Diaconu, CFA**  
Office & Retail Research

**Ross Adams**  
Industrial Research

**Sharim Sohail**  
Self-Storage Research

### Europe

**Ruben Bos, CFA**  
Head of Real Estate Investment Strategy, Europe

**Tom Francis**  
Property Market Research

**Siena Golan**  
Property Market Research

**Rosie Hunt**  
Property Market Research

**Carsten Lieser**  
Property Market Research

**Martin Lippmann**  
Head of Real Estate Research, Europe

### Asia Pacific

**Koichiro Obu**  
Head of Real Estate Research, Asia Pacific

**Seng-Hong Teng**  
Property Market Research

**Hyunwoo Kim**  
Property Market Research

**Matthew Persson**  
Property Market Research

---

**AUTHORS**

---



**Simon Wallace**  
Global Co-Head of Real Estate Research

---



**Kevin White**  
Global Co-Head of Real Estate Research

---

## Important information

### For North America:

The brand DWS represents DWS Group GmbH & Co. KGaA and any of its subsidiaries, such as DWS Distributors, Inc., which offers investment products, or DWS Investment Management Americas, Inc. and RREEF America L.L.C., which offer advisory services.

This material was prepared without regard to the specific objectives, financial situation or needs of any particular person who may receive it. It is intended for informational purposes only. It does not constitute investment advice, a recommendation, an offer, solicitation, the basis for any contract to purchase or sell any security or other instrument, or for DWS or its affiliates to enter into or arrange any type of transaction as a consequence of any information contained herein. Neither DWS nor any of its affiliates gives any warranty as to the accuracy, reliability or completeness of information which is contained in this document. Except insofar as liability under any statute cannot be excluded, no member of the DWS, the Issuer or any office, employee or associate of them accepts any liability (whether arising in contract, in tort or negligence or otherwise) for any error or omission in this document or for any resulting loss or damage whether direct, indirect, consequential or otherwise suffered by the recipient of this document or any other person.

The views expressed in this document constitute DWS Group's judgment at the time of issue and are subject to change. This document is only for professional investors. This document was prepared without regard to the specific objectives, financial situation or needs of any particular person who may receive it. No further distribution is allowed without prior written consent of the Issuer.

Investments are subject to risk, including market fluctuations, regulatory change, possible delays in repayment and loss of income and principal invested. The value of investments can fall as well as rise and you might not get back the amount originally invested at any point in time.

An investment in real assets involves a high degree of risk, including possible loss of principal amount invested, and is suitable only for sophisticated investors who can bear such losses. The value of shares/ units and their derived income may fall or rise.

War, terrorism, sanctions, economic uncertainty, trade disputes, public health crises and related geopolitical events have led, and, in the future, may lead to significant disruptions in US and world economies and markets, which may lead to increased market volatility and may have significant adverse effects on the fund and its investments.

For Investors in Canada. No securities commission or similar authority in Canada has reviewed or in any way passed upon this document or the merits of the securities described herein and any representation to the contrary is an offence. This document is intended for discussion purposes only and does not create any legally binding obligations on the part of DWS Group. Without limitation, this document does not constitute an offer, an invitation to offer or a recommendation to enter into any transaction. When making an investment decision, you should rely solely on the final documentation relating to the transaction you are considering, and not the document contained herein. DWS Group is not acting as your financial adviser or in any other fiduciary capacity with respect to any transaction presented to you. Any transaction(s) or products(s) mentioned herein may not be appropriate for all investors and before entering into any transaction you should take steps to ensure that you fully understand such transaction(s) and have made an independent assessment of the appropriateness of the transaction(s) in the light of your own objectives and circumstances, including the possible risks and benefits of entering into such transaction. You should also consider seeking advice from your own advisers in making this assessment. If you decide to enter into a transaction with DWS Group, you do so in reliance on your own judgment. The information contained in this document is based on material we believe to be reliable; however, we do not represent that it is accurate, current, complete, or error free. Assumptions, estimates, and opinions contained in this document constitute our judgment as of the date of the document and are subject to change without notice. Any projections are based on a number of assumptions as to market conditions and there can be no guarantee that any projected results will be achieved. Past performance is not a guarantee of future results. The distribution of this document and availability of these products and services in certain jurisdictions may be restricted by law. You may not distribute this document, in whole or in part, without our express written permission.

### For EMEA, APAC, LATAM & MENA:

DWS is the brand name of DWS Group GmbH & Co. KGaA and its subsidiaries under which they do business. The DWS legal entities offering products or services are specified in the relevant documentation. DWS, through DWS Group GmbH & Co. KGaA, its affiliated companies and its officers and employees (collectively "DWS") are communicating this document in good faith and on the following basis.

This document is for information/discussion purposes only and does not constitute an offer, recommendation, or solicitation to conclude a transaction and should not be treated as investment advice.

This document is intended to be a marketing communication, not a financial analysis. Accordingly, it may not comply with legal obligations requiring the impartiality of financial analysis or prohibiting trading prior to the publication of a financial analysis.

This document contains forward looking statements. Forward looking statements include, but are not limited to assumptions, estimates, projections, opinions, models, and hypothetical performance analysis. No representation or warranty is made by DWS as to the reasonableness or completeness of such forward looking statements. Past performance is no guarantee of future results.

The information contained in this document is obtained from sources believed to be reliable. DWS does not guarantee the accuracy, completeness, or fairness of such information. All third-party data is copyrighted by and proprietary to the provider. DWS has no obligation to update, modify or amend this document or to otherwise notify the recipient in the event that any matter stated herein, or any opinion, projection, forecast, or estimate set forth herein, changes or subsequently becomes inaccurate.

Investments are subject to various risks. Detailed information on risks is contained in the relevant offering documents.

No liability for any error or omission is accepted by DWS. Opinions and estimates may be changed without notice and involve a number of assumptions which may not prove valid. DWS does not give taxation or legal advice.

This document may not be reproduced or circulated without DWS's written authority.

This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country, or other jurisdiction, including the United States, where such distribution, publication, availability, or use would be contrary to law or regulation or which would subject DWS to any registration or licensing requirement within such jurisdiction not currently met within such jurisdiction. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions.

© 2024 DWS International GmbH

Issued in the UK by DWS Investments UK Limited which is authorised and regulated by the Financial Conduct Authority (Reference number 429806).

© 2024 DWS Investments UK Limited

In Hong Kong, this document is issued by DWS Investments Hong Kong Limited and the content of this document has not been reviewed by the Securities and Futures Commission.

© 2024 DWS Investments Hong Kong Limited

In Singapore, this document is issued by DWS Investments Singapore Limited and the content of this document has not been reviewed by the Monetary Authority of Singapore.

© 2024 DWS Investments Singapore Limited

In Australia, this document is issued by DWS Investments Australia Limited (ABN: 52 074 599 401) (AFSL 499640) and the content of this document has not been reviewed by the Australian Securities Investment Commission.

© 2024 DWS Investments Australia Limited

For investors in Bermuda: This is not an offering of securities or interests in any product. Such securities may be offered or sold in Bermuda only in compliance with the provisions of the Investment Business Act of 2003 of Bermuda which regulates the sale of securities in Bermuda. Additionally, non-Bermudian persons (including companies) may not carry on or engage in any trade or business in Bermuda unless such persons are permitted to do so under applicable Bermuda legislation.

For investors in Taiwan: This document is distributed to professional investors only and not others. Investing involves risk. The value of an investment and the income from it will fluctuate and investors may not get back the principal invested. Past performance is not indicative of future performance. This is a marketing communication. It is for informational purposes only. This document does not constitute investment advice or a recommendation to buy, sell or hold any security and shall not be deemed an offer to sell or a solicitation of an offer to buy any security. The views and opinions expressed herein, which are subject to change without notice, are those of the issuer or its affiliated companies at the time of publication. Certain data used are derived from various sources believed to be reliable, but the accuracy or completeness of the data is not guaranteed, and no liability is assumed for any direct or consequential losses arising from their use. The duplication, publication, extraction, or transmission of the contents, irrespective of the form, is not permitted.

© 2024 DWS Group GmbH & Co. KGaA. All rights reserved. (7/24) 081497\_8.2